NOTES AND MEMORANDA

EARLY HISTORY OF THE TERM CAPITAL

It would not have been at all surprising if the adjective capitalis, formed by the Romans from their substantive caput, which is the Latin for our substantive "head," had been applied by them to many different things. We ourselves, using "head" adjectively or in composition with a hyphen, talk of head-keepers, head-offices, head-quarters and many other head things. But, if the dictionaries are to be trusted, Latin writers of the classical period generally confined their use of capitalis to the sense in which we, following them, use the adjective "capital" in applying it to crimes and punishments — the sense of "having to do with life." But they did sometimes use it in what to us, with our belief that the head is the seat of personality, seems the more obvious sense of "most important." In later ages this use became common, so that the French speak of "la ville capitale d'un pays," "le point capitale de l'affaire," and the English used to speak of "the capital messuage" and still speak of "the capital city of a country," and "the capital merit" of a work, and many other things.[1] In this sense it is synonymous with "chief," which is itself nothing but the French chef, a softened form of caput.[2]

Now if we ask ourselves what is the chief sum of money dealt with in any particular business, whether that business is carried on by an individual or by a small number of partners such as we call a firm or by a larger number of partners such as we call a company, the answer is "the sum which is the foundation of the business, the total of money on which the individual, firm or company carries on trade." At first this is,

[1] A "capital letter" is, however, not a most important letter but originally one that stood at the head of a sentence or word, and subsequently any letter similar in form.

[2] See Hatzfeldt and Darmesteter, Dict. gén. de la langue française, s. v. chef.

of course, the amount on which the business is started; later, it is that amount plus any additions which may have been made to it, and minus any subtractions which may have been made from it. What additions and subtractions should properly be made is constantly a matter on which opinions differ, and the rules generally accepted differ to some extent between different kinds of business and even within the same kind of business according as it is carried on by an individual or a firm or a company. But tho dispute may arise about the correct amount of the sum, there is never any doubt about its identity. Critics of the accounts may say that the sum is really greater, or that it is really less, than it is represented; they may even say that it is "all lost," while the managers assert equally confidently that it is not; but there never is any question about there being such a thing, even if it is alleged that its amount is now *nil* or a minus quantity. It is the "chief" sum because it originally started the business, and because it is ordinarily bigger than the sums obtained by means of the business — "the profits" for the short periods such as a year or half-year for which they are likely to be calculated. The kind of preëminence which it possesses is the same as that which a sum lent has over the interest upon it and which leads us to call that sum "the principal" sum, or, for short, "the principal."

My linguistic attainments are not sufficient to enable me to speak positively on the subject, and an effort I once made to enlist foreign assistance (in the *Revue d'économie politique*, May, 1893, pp. 178, 179) was a failure, but I believe that whatever was the modern equivalent of the Latin capitalis was used as a substantive to indicate this chief sum in a business in several of the Continental countries by at least the middle of the sixteenth century. The way was very probably smoothed for it by Low Latin usages; Böhm-Bawerk says, without giving any authority, that *capitalis pars debiti* meant the principal of a debt.[1] Irving Fisher[2] quotes from Du Cange's *Glossarium* "capitale dicitur bonum omne quod pos-

[1] Positive Theory of Capital, 1891, p. 24.

[2] Nature of Capital and Income, 1906, p. 62.

sidetur," i. e., "capital is a name for all the goods possessed." Anyway, the first examples of the use of capital, or rather "capitall," in this sense which have been unearthed in English literature are in books which seem to be attempting to teach the English merchant how to keep accounts with the aid of the superior methods practised abroad. Professor W. R. Scott tells us that James Peele, who taught "the art of Italian merchants accounts," writing in 1569, describes "an inventorie for trafique" as "a note to be taken in writinge of all thinges, founde and remayninge in the house apperteyninge to trade of merchaundise, thereby to know a mans estate, and doth consist of ii kinds; the one whereof, is that a man hathe or ought to have in possession, to saye in readye monie, debtes and goodes; and another kinde, is that which he oweth to other men being his creaditours, and by comparinge of the totall somme of the readye monie, debtes and goodes, with the totall somme of creaditours, the estate of that accompte is presentlye perceyved (that is to saye) so muche as the monye debtes and goodes sormounte the creaditours, so muche apperteyneth to the owner of that accompte for his proper stocke or capitall, in traffique."[1] Murray's *New English Dictionary*, the *Oxford Dictionary* or *N. E. D.*, gives from the *Briefe Instr.* of J. Mellin (a writer about whom I have not yet ascertained anything) published in 1588 "The remaine is the net rest substance or capitall of the owner." Richard Dafforne, on whom the effect of foreign influence is sufficiently suggested by his giving his examples in guilders, in *The Merchant's Mirrour; or Directions for the perfect ordering and keeping of his accounts*, 1635, gives this instruction: "No. 96. to booke the capitall which each partner of a joint company promiseth to bring in:

Simon Sands promiseth into the company for his stocke, ...	gl. 11,400
And Richard Rakes for his stocke intendeth, .	gl. 7,800
	gl. 19,200"

[1] The Pathwaye to Perfectnes, in th' accompte of debitour and creaditour; in manner of a Dialogue, very pleasaunte and profitable for Merchauntes; quoted in Scott's Constitution and Finance of English, Scottish and Irish Joint Stock Companies to 1720, vol. i, p. 61, 1912.

The *Oxford Dictionary* quotes Cotgrave's *Dictionarie of the French and English Tongue*, 1611, as negative evidence suggesting that capital was not at that date in familiar use in England, since Cotgrave, who was by no means superior to the common lexicographer's practise of translating a word by itself (as riche by "rich," généralité by "generality," large by "large"), does not say that the French capital is "capital," but "wealth, worth, a man's principall or chiefe substance." He gives as an example of its use, "en argent soit le capital de celuy la qui te veut mal. Prov. Let money be thy enemies whole stocke."[1]

Three years after Cotgrave's *Dictionary* was published, capital, we are told by Professor W. R. Scott, began to be used in the records of the East India company to indicate what we should now call the nominal amount of the holding of a shareholder, not "in the company," for the company had not yet arrived at the stage of having a permanent stock or capital, but in one of the undertakings called a "voyage." When the shareholders in one of these "voyages" were to receive a sum equal to 50 per cent on their holdings, on September 20, 1614, the records call this a division of "fifty on the hundred," but on December 6 they call it a division of a "half-capital," and a fortnight later they speak of "capital in money" being divided where we should speak of a dividend of 100 per cent. "After 1614," says Professor Scott, "payments expressed in terms of one or more 'capitals' are frequent." Here the term "capital" is used, just as in the example quoted above from Dafforne, for the capital subscribed by the shareholder (or held by him if he has obtained his shares otherwise than by being an original subscriber). Moreover in

1 Those who consult the Oxford Dictionary should make themselves acquainted with the symbols it employs. Several good writers, failing in this, have imagined Cotgrave's to be a dictionary of English, and have therefore quoted his translation of the French word capital as if it were a definition of the English word capital. They would have avoided this error if they had noticed that the quotation from Cotgrave is preceded by the symbol intended to indicate negative evidence; the N.E.D. quotes Cotgrave's translation to show that capital was *not* familiar to lexicographers as an English word in 1611. This negative evidence may be supplemented. The 1632 edition of Cotgrave's work has an English-French part which gives "Capitall, capital, capitulaire, a great capitall (or text) letter, cadeau." And Henry Hexham's copious English and Nether duytch Dictionarie, 1660, gives Capitael, The Principle or Chief Summe.

1621 an English translation of Orders of the States-General of the United Provinces for the establishment of a West Indian Company mentions the "capital or stock" of the members of the company and the "capital sums" subscribed into the company by them. Professor Scott thinks that the new term was introduced because the "stock" of the company in the sense of the things which it possessed included what it had bought with borrowed money, so that when it was expressed in terms of money the total stock of the company would be what was subscribed by the shareholders plus what was borrowed, and therefore a division of fifty on the hundred (or, as we should say, 50 per cent) "on the stock" might be misunderstood. It is clear that the various significations of "stock" in connection with companies would require to be distinguished somehow, and the rather exotic "capital" was called in for the purpose.

From calling the holdings of the individual members of a company, when thought of as amounts of money, their "capitals," it is a very short step to calling the aggregate of these holdings "the capital of the company"; a short step which is made easier by the fact that this aggregate is the thing upon which all operations of the company are founded — it is the most important or chief stock of the company. We can almost see the working of the seventeenth-century mind in this matter in the Bank of England's 1697 act of Parliament (8 & 9 W. & M., chap. 20). Sect. 20 first wedges the adjective "capital" in between "common" and "principal," speaking of the "common" capital, and "principal" stock of the company, and then drops both "common" and "principal" by referring to the same thing as "the said capital stock." The term "common" suggests the idea of aggregating the individual "capitals," and "principal" suggests the idea of the preëminence of the particular stock.[1]

The Act shows that the idea of the capital of the company as a sum of money with nothing but an historical connection

[1] As there are no commas in the original, the word "capital" in "common capital and principal stock" might be taken to be a substantive, but this interpretation seems excluded by the use of "capital stock," and would make no difference to the argument above if it were adopted.

with the actual possessions of the company at the moment had as yet made little progress, since "for the better settling and adjusting the right and property of each member" of the company, the capital stock was to "be computed and estimated by the principal and interest owing to them from the king or any others and by cash or by any other effects whereof the said capital stock shall then really consist over and above the value of the debts which they shall owe at the same time." The idea evidently is that the "real" capital stock is the assets less liabilities, not the sum originally subscribed plus additions and minus subtractions made in some formal manner. But we may safely say that in the region of company finance capital was fairly established by the end of the seventeenth century in the two senses in which it is still understood there. When the company started, and shareholders provided the money, they were said to provide "capital," and this, once obtained, became the "capital stock," or shortly "the capital" of the company, and was the sum on which profits were reckoned and dividends declared at so much per cent, its ownership being regarded as distributed among the members or shareholders in proportion to the number of pounds held by each of them.[1]

Starting thus in company finance, the term gradually won its way into the fields of individual finance, "political arithmetic," and economics.

In earlier times the individual could feel no want of such a term in his own affairs. The primitive agriculturist, feeding himself and his family almost entirely on what he and they have won from the ground with their own hands, might recognize, like Abraham and Lot, that his stock of cattle had increased, or that he had got his soil into better condition, but he certainly never dreamt of saying that he had put a certain number of shekels or pounds into the business and was getting 10 per cent or any other percentage upon that number. The

[1] I am not forgetting that companies' capitals are often divided into shares, that dividends are declared at so much per share, and that each member is regarded as holding a number of shares. In fact the shares are always described as "-pound shares," and the holder of a £10 or £1 share is in just the same position as the holder of £10 or £1 of "stock" in a company which does not allow division below £10 or £1.

early artisan knew when his stock of tools was improving or deteriorating and when his stock of materials or finished goods was greater or less, but it did not occur to him that he ought to know what profit he was making on the sum of money which he had — very gradually in all probability — "put into the business."

But by the time the term capital came into general use in connection with companies, there were many individuals, chiefly merchants, who could make some estimate of the amount of money embarked in their business, and who would find it convenient to calculate what percentage upon that amount they were making, inasmuch as the percentage would tell them whether they were doing well or ill compared with their neighbors at the same time, and compared with themselves in earlier periods, and also whether it would be better to drop the particular line of business and take up some other. "Stock" was not a very convenient term for the amount of money put into the business, since it properly signified the actual things owned, tho sometimes used of the money put into them. A man's "stock-in-trade" would be that part of his goods which was used in his trade, but what was wanted was a name for the amount of money invested in this stock-in-trade. It was very naturally found in the term which had come into use for the amount invested in the stock-in-trade of a company, and men began to talk of "putting capital into" their own individual business just as they spoke of putting capital into such and such a company.

So Postlethwayt's *Universal Dictionary of Trade and Commerce* in 1751 gives us this:

"CAPITAL, amongst merchants, bankers, and traders, signifies the sum of money which individuals bring to make up the common stock of a partnership when it is first formed. It is also said of the stock which a merchant at first puts into trade, for his account. It signifies likewise the fund of a trading company or corporation, in which sense the word stock is generally added to it. Thus, we say the capital stock of the bank, &c. The word capital is opposed to that of profit or gain, though the profit often increases the capital,

and becomes itself part of the capital, when joined with the former."

Johnson, whose attitude towards finance is shown by his explaining "stockjobber" as "a low wretch who gets money by buying and selling shares in the funds" had not got so far in 1755 as to recognize capital as a substantive at all. "Capital Stock" he explains as "The principal or original stock of a trading company."

Postlethwayt thinks of the merchants capital as the stock, by which he evidently means money, first put into his trade. There is something prior and something subsequent to this. Before the merchant first puts the sum into trade it is there ready to be put in. The merchant "has capital to employ." When he has put it in it does not cease to exist; he still has capital unless it is lost, which normally it will not be. The term was already used of money to invest. After being once put in, the merchant's capital would be analogous to the capital of the company, with this very important exception, that there was no need to stereotype it in the same way.

In company finance it is convenient that the capital should have a great measure of fixity. It may indeed from time to time be increased by the addition of new subscriptions or formal appropriations from profits, or be decreased by some rather solemn process of "writing down." But the whole or most of the convenience which is obtained from the use of the conception would be lost if the capital was continually varying with every fluctuation in the money value of the stock in trade and goodwill owned by the company minus its liabilities. Imagine the confusion which would be wrought in the payment of dividends in stock exchange dealings and elsewhere if the capital of every bank and railroad were adjusted every six months or even every year on the principle of the 1697 act of Parliament! The capital of the company, sometimes called even now the "nominal capital" owing to the continuance of a hankering after a "real capital," cannot be frequently altered without inconvenience. But an individual has no such need for a "nominal capital," because he has no stock or shares to be dealt in, and no shareholders among

whom profits are to be divided. Consequently he is more likely to think of the capital in his business as the money value of the stock-in-trade and goodwill of the business at the moment when the accounts are made up. If it is less than it was last time the accounts were made up the capital in the business is less by the amount of the difference and *vice versa*. Thus the capital of the merchant or manufacturer came to mean, not, like the capital of the company, a stereotyped figure having some historical connection with the amount of money originally invested, but the money value at the moment of the stock-in-trade and goodwill less debts; or shortly the assets less the liabilities.

I do not think any one in the eighteenth century proposed to extend the conception of the capital of the merchant or manufacturer so as to make it cover the whole of his assets less the whole of his liabilities as a man. It was confined to so much of his assets and liabilities as belongs or appertains to that side of him which is merchant or manufacturer. When a company is formed to carry on a business, the question here involved cannot be asked with regard to it. The funds which it employs in its business are necessarily separated from the rest of the property of its individual members. It is true that the separation disappears if the company is one with "unlimited liability" and is insolvent. But all the more important of the old companies, like all modern companies, had limited liability; and after all solvency is more usual and normal than insolvency. So the capital of a company was never difficult to distinguish from other property owned by its proprietors. But when an individual carries on business on his own account, there is no corresponding distinction of ownership between property belonging to his business and property outside that business. All is his, and all is liable for all his debts; misfortune in business may deprive him of his furniture and dwelling-house, and extravagance in living may ruin his business by depriving it of necessary funds. Some of his material possessions may be used partly for his business and partly for the comfortable maintenance of himself and his family; his house may be partly a workshop or a "front shop,"

his carriage or cart and horse may sometimes be employed in the business and sometimes otherwise.

The difficulty may require different solutions according to the purpose in view, but it is always possible in some way or other to distinguish the capital in the business from the rest of the man's property. If, for example, the purpose is to discover how much, if anything, the man will lose by abandoning his business, we may divide his house between its two uses by asking how much a house to live in would cost him if he retired from business, subtract this from the selling value of his present dwelling and shop house, and say the remainder is capital in the business. For answering questions about the success of the business some estimate of the capital employed in it is necessary and can be made, tho often with considerable doubt.

The question, often discussed in recent years, whether land "is to be included in capital," did not present itself so long as capital was thought of as money to invest or as money which had been invested. A capital of £10,000 might be invested in the purchase of land as well as in the purchase of other movable commodities; no one would think of then reducing its amount to £8,000 if £2,000 of it had been spent on buying land. In the case of a company the semi-stereotyped figure of its capital would be unaffected by any subsequent change in the value of the land bought; in the case of an individual revaluing his possessions from time to time changes in the value of the land included in them would be either ignored or recognized just like changes in the value of other things — sometimes the land would be put "at cost" and sometimes at market value. We must remember that the capital was always conceived as the money invested, not as the things themselves in which the money was invested.

As for the application of the term to the affairs of the nation, at least two pre-Smithian writers, and probably others, summed up a total which they regarded as the national capital. The author of a *Discourse of Money*, 1696, p. 198, talks of "the capital stock of national treasure," and Andrew Hooke, in his *Essay on the National Debt and National Capital*,

1750, treats the "national capital" as consisting of (1) "cash, stock, or coin," (2) "personal stock" or "wrought plate & bullion, jewels, rings, furniture, apparel, shipping, stock-in-trade, stock for consumption, and live-stock of capital," and (3) "land stock," "the value of all the lands in the kingdom."

Such was the situation when Adam Smith took the term in hand. In the student's notes of his *Lectures* it only occurs on p. 248, where it is used simply of a sum of money lent as opposed to the interest paid on the loan. "When a sum of money is lent to a private person, the creditor can come upon the debtor when he pleases for both capital and interest; but it is not on this footing that the government borrows money; they give you a right to perpetual annuity of 3 or 4 per cent, but not to re-demand your capital." Such anticipation of the doctrine of the *Wealth of Nations* as can be found in the *Lectures* must be looked for in the passages which deal with "Stock." Bounties are condemned because "in every country there is in store a stock of food, clothes, and lodging," and the "number of people that are employed must be in proportion to it," so that if bounties are given to one trade, stock and employment are simply taken away from the rest (p. 181). One of the great causes of the "slow progress of opulence" is the difficulty of accumulating stock, which is necessary before labour can be divided, since "a poor man with no stock can never begin a manufacture" and "before a man can commence farmer, he must at least have laid in a year's provision, because he does not receive the fruits of his labour till the end of the season," so that "in a nation of hunters and shepherds no person can quit the common trade in which he is employed" — presumably hunting or tending sheep — "and which affords him daily subsistence, till he have some stock to maintain him and begin the new trade." The savage with "no stock to begin upon" and "not so much as a pick-axe, a spade, or a shovel" to assist him, finds the very greatest difficulty in getting together any stock, and "till some stock be produced there can be no division of labour, and before a division of labour take place there can be very little accumulation of stock" (pp. 222, 223).

Want of security against internal disorder and external attack forms another hindrance to accumulation. Taxes on land are distinguished from taxes on stock, and a tax on stock is condemned because it requires discovery of "what a man is worth," so that presumably we must understand a man's stock to include all his possessions other than land.

In Book 1 of the *Wealth of Nations* we hear very little of "capital," while "stock" is playing the same important part as in the *Lectures*. It is still the "profits of stock," not "of capital," which is one of the three "component parts of price" and one of the three "original sources of all revenue" (p. 54). Chap. 9 is "Of the Profits of Stock." Except, I think, on one page where "the capital stock of the society" and "the capital stock of Great Britain" suddenly appear as synonyms for "the stock of the country" (p. 95), "capital" is only used in relation to individual businesses. But the physiocrats' talk of "advances" and "capitaux" and their doctrine of productive and sterile labor seem to have made Smith look further into the nature of stock, with the result that in Book 2, "Of the Nature, Accumulation, and Employment of Stock," he divides the stock of an individual and of a community into two parts, the "capital" and the "stock reserved for immediate consumption." This indicates a very serious departure from the conception of capital which had hitherto prevailed. Instead of making the capital a sum of money which is to be invested, or which has been invested in certain things, Smith makes it the things themselves. Instead of being a sum of money expended on the acquisition of stock, it is part of the stock itself. But the change is not pointed out to the reader in any way, and Smith was doubtless quite unconscious of having made it. He constantly drifts back into expressions which are only appropriate to the older conception. Immediately after making the division of stock into capital and not-capital he says that "a capital" may be "employed in raising, manufacturing, or purchasing goods and selling them again with a profit." Or "it may be employed in the improvement of land, in the purchase of useful machines and instruments of trade, or in such like things as

yield a revenue or profit without changing masters," which is just what might be said by anyone with the old and still ordinary conception of capital as money which is to be invested or has been invested. Similarly a little lower down, the "price or value" of the farmer's laboring cattle and instruments and "the whole value of the seed" appear a part of the farmer's capital, altho in the same paragraph the things "a flock of sheep or a herd of cattle" are treated as themselves the capital.

If Smith had recognized that the new sense nearly equivalent to "stock-in-trade," which he was attributing to capital, was different from the old well-established sense, it is doubtful whether he would have persisted, and it is certain that if he had either not made the change or had explained clearly that he was making it, much subsequent confusion would have been avoided. But that is another story which cannot be dealt with in this article.

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